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SIPDIS

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SUBJECT: Elections: GOZ Accelerates Populist Economic Measures

1. As expected, the GOZ has recently begun to devote increasing, and disproportionate, resources to ensuring the availability and affordability of politically sensitive goods and services such as maize-meal, fuel and educational expenses. In time-honored fashion, the GOZ expects to pad its share of the vote by providing more accessible food, transport and schooling (in addition to more direct methods such as harassment, intimidation, and biased media coverage). Zimbabwe cannot, of course, afford these economic policies, whose implementation will prove economically counterproductive over the long haul and damage prospects for economic revival.

Buying Votes n

Maize

2. Maize-meal is far and away Zimbabweans' main food staple. In the past week, its price has dropped from Z\$ 2,000 (US\$1.36) to Z\$1,200 (US\$1.21)/kg. This is the direct result of the parastatal Grain Marketing Board (GMB) providing an increased subsidy to wholesalers to bring down the price. The subsidy is now on the order of 35 percent of the price of maize-meal.

Petrol

3. After service stations ran dry over the weekend of September 4-5, Reserve Bank (RBZ) Governor Gideon Gono took to the airwaves to assure the population that he had provided sufficient foreign exchange to importers to ensure adequate supplies of petrol in the future. Gono revealed publicly for the first time that the RBZ was devoting about 40 percent of its forex to oil firms. Fuel has been among the most politically sensitive goods in Zimbabwe. The opposition Movement for Democratic Change (MDC) recruited many new members in the hours-long lines of the 2001 shortages and in the economy's near stand-still in late 2002 after Libya stop providing discounted fuel.

School Fees

4. The GOZ announced on the front page of the September 6 State-run "Herald" that it was permitting only one private school nationwide to raise fees for the third term, which for most schools began September 7. Schools were required to keep fees at last year's rates. By keeping down tuition, the GOZ argues it is opening up these formerly white enclaves to more black families. Nonetheless, inflation has added about 50 percent to the cost of school fees since the beginning of the last term in May.

Longer-Term Consequences

5. The GOZ has given no indication it will revert to the disastrous sub-market price controls it imposed in mid-2003. At that time, retailers refused to restock most items, since wholesale costs often exceeded controlled prices. Still, even these more limited controls, aimed at boosting the ruling party's electoral fortunes, are costly, market-distorting and in the long-term, counterproductive and unsustainable.

6. With maize-meal, for instance, the subsidized price now barely beats input costs (seed/fertilizer/tillage), acting as a disincentive to production. The decision to devote a large percentage of Zimbabwe's available foreign

exchange to supporting fuel imports will also have adverse economic effects. Importers of other goods will have to settle for more expensive parallel-market forex, making their businesses less viable. Finally, private schools are dramatically cutting salaries and services as a result of price controls, inducing still more teachers and affluent families to leave Zimbabwe. Ultimately, the country may pay a hefty price for Zanu-PF's electioneering.

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